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Report of the Inter-Agency Procurement Services Office for the biennium 2006-2007

Summary

The present biennial report is submitted by the Administrator for the information of the Executive Board, pursuant to Executive Board decision 96/2. It provides an update on the activities of the Inter-Agency Procurement Services Office (IAPSO) of the Bureau of Management for the biennium 2006-2007.

In line with Board decision 2001/13 on the biennial support budget, IAPSO continued to be self-financing requiring no UNDP budget support to sustain its operations. IAPSO has been able to use the revenue that it has generated to invest in procurement capacity development for the UNDP and in supporting its inter-agency functions.

Of particular note is that UNDP and UNOPS initiated a partial merger of certain IAPSO functions with UNOPS in May 2007. In its second regular session in 2007, the Executive Board indicated its overall support for the partial merger (decision 2007/38). The partial merger was successfully implemented on 1 January 2008.

Elements of a decision

The Executive Board may wish to:

(a) Take note of this report of the Administrator on the activities of the Inter-Agency Procurement Services Office for the biennium 2006-2007 (DP/2008/43) recognising that this will be the last report submitted on IAPSO based on the successful implementation of the partial merger of certain IAPSO functions with UNOPS on 1 January 2008; and

(b) Commend both UNDP and UNOPS teams on the successful implementation of the partial merger transition process especially in relation to business transfer and human resources activities.

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Contents

Chapter		*Page*
	Introduction	3
I.	Merger of certain functions of IAPSO with UNOPS	3
II.	Financial performance	4
III.	Support to country offices	4
IV.	Inter-organization services	5
	A. Procurement capacity development	5
	B. Support to the business community	6
	C. Inter-Agency Procurement Working Group	6
V.	Procurement and supply chain management	7
	A. Procurement services	7
	B. Sourcing from developing countries	7
	C. e-procurement	7
Annex		11
	Table 1. IAPSO procurement by major product group	19
	Table 2. IAPSO procurement services by client group	19

Introduction

1. Over the biennium, the Inter-Agency Procurement Services Office (IAPSO) provided procurement and supply-chain management services procurement capacity development and e-procurement solutions to UNDP, other United Nations organizations, and partners in development. It served as the secretariat of the Inter-Agency Procurement Working Group, (IAPWG), renamed as the High-level Committee on Management (HLCM) Procurement Network, and supported its working groups and annual meetings.

2. The partial merger of certain IAPSO functions with UNOPS, effective 1 January 2008, has meant transferring its various functions to either UNOPS or UNDP. In UNDP, such functions have been incorporated into the Procurement Support Office (PSO) in the Bureau of Management (BOM), as part of an associated rationalization and strengthening of the UNDP internal procurement support function.

3. During the biennium, IAPSO has placed greater emphasis on serving UNDP country offices to assist procurement in delivering programme results, especially in the key UNDP practice areas. This emphasis will be enhanced within the new PSO setup and is in line with the UNDP strategic plan, 2008-2011.

4. Compared to the previous biennium, turnover at IAPSO has declined for several reasons, and should be viewed in the context of the partial merger decision. Overall, IAPSO respected the self-financing principle governing its operations.

5. With the implementation of the partial merger, UNOPS will assume responsibility for and provide the Executive Board with consolidated statistics on United Nations system procurement for 2007, as set out in document DP/2008/51.

I. Merger of certain functions of IAPSO with UNOPS

6. UNDP and UNOPS initiated a partial merger of certain IAPSO functions with UNOPS in May 2007. During its second regular session 2007, the Executive Board indicated its overall support for the partial merger (decision 2007/38). The key elements of the merger are outlined in two documents approved by the Board in September 2007 (DP/2007/CRP.6 and DP/2007/CRP.7).

7. The partial merger was implemented on 1 January 2008, with a transfer of assets, business processes and staff.

8. In the partial merger, UNOPS took over the direct procurement services carried out by UNDP/IAPSO that relate to goods of common use to its clients, including vehicles, office machines and communications equipment, and management of the e-procurement platform Web Buy for most organizations of the United Nations system, as well as for governmental and non-governmental partners in development. UNOPS assumed responsibility for services that support the United Nations procurement system, especially the United Nations Global Marketplace, which is the portal for the vendor community for United Nations system procurement opportunities, permitting registration of suppliers worldwide to supply goods and services to the United Nations system and providing access to procurement notices and contract awards. UNOPS also took over production of the annual statistical report on the procurement activities of the United Nations system.

9. UNDP has retained the direct procurement functions carried out by UNDP/IAPSO that are critical to the delivery of UNDP development results. UNDP has also retained those UNDP/IAPSO capacity development functions for procurement that serve both the

needs of programme country government counterparts (as part of public sector reform initiatives) and internal UNDP needs. Finally, pending the outcome of an ongoing inter-organization review of the various inter-organization mechanisms, UNDP has retained the secretariat function servicing the former Inter-Agency Procurement Working Group – now known as the Procurement Network – under the High-Level Committee on Management.

10. The systematic management of the transition process with vigilant attention to due process considerations for staff, client relationships, and risk monitoring, was the key to the successful transition. With respect to the human resources dimension, this included a participatory, transparent, and fact-based implementation involving the relevant staff representation bodies in an open dialogue, and implementation through a transparent, independently conducted position-matching and job-fair process for UNOPS and UNDP.

II. Financial performance

11. The financial results for the biennium 2006-2007 are mixed, and must take into account factors such as: the extraordinarily high turnover in 2005 due to a single high value electoral support project; termination of Global Drug Facility procurement; and impact of the partial merger decision on business in 2007. The total turnover during 2006 was $138 million, with an average fee of 3.24 per cent. The corresponding figures in 2007 were $107 million and 3.82 per cent. During the biennium, the net operating surplus was about 0.29 per cent of the turnover, while the cash reserve was increased by about $0.72 million. The reduced turnover for 2007 is due to the announced partial merger, since IAPSO did not take on long-term procurement projects and resources available to handle procurement volume were reduced due to staff departures in anticipation of the merger. IAPSO had also invested in certain activities that did not generate income (such as the International Organization for Standardization certification project, information technology systems development and an e-consulting project), resulting in an expenditure of $0.8 million from its operating fund in 2007. Overall, the IAPSO fund balance increased from $9.4 million as at 1 January 2006 to $10.1 million as at 31 December 2007.

12. The balance in UNDP general resources relating to accumulated revenues over costs (reserve) by IAPSO has been or will be used for:

(a) Any liabilities relating to IAPSO business prior to the implementation date, plus the cost of closing IAPSO accounts;

(b) IAPSO expenditure exceeding revenue in 2007, if applicable;

(c) UNDP/PSO start-up costs in 2008;

(d) Cost of change management activities linked to the partial merger, for UNDP and for UNOPS, including for remaining activities carried over into 2008;

(e) Costs for current IAPSO/PSO staff who are unsuccessful in finding a position in either UNOPS or UNDP and must be separated from UNDP; and

(f) A one-time transfer from UNDP to UNOPS.

III. Support to country offices

13. IAPSO played a major role in supporting procurement activities of UNDP country offices. IAPSO had been aligning its services to better support delivery of UNDP programme objectives in democratic governance, (election procurement and partner government procurement capacity development), HIV/AIDS, (by supporting procurement for UNDP country offices that are principal recipients of the Global Fund to Fight AIDS,

Tuberculosis and Malaria (GFATM), and in crisis prevention and recovery, by augmenting and developing the procurement capacity of country offices.

14. The main support to country offices had been in providing procurement transaction services either through its e-catalogue system or other framework and long-term agreements. Increasingly, IAPSO has developed agreements that support procurement in elections and GFATM. For example in countries where UNDP procures for elections, the requirements are often urgent, with challenging deadlines. In many cases IAPSO successfully procured the necessary materials for elections on time by using the established agreements. Similarly, IAPSO set up several long-term agreements for GFATM through which it supported country offices.

15. In terms of capacity development, IAPSO fielded over 30 missions to country offices to provide hands-on training to procurement staff. Often this training included programme staff, as IAPSO believes that country offices should work in an integrated manner to achieve programme results and that procurement planning should be introduced early in programme conception. In addition, specific training in civil works procurement was delivered to country offices in Jerusalem (Programme of Assistance to the Palestinian People), Zimbabwe and Liberia.

16. Various missions were fielded to augment procurement capacity in various country offices. For example, IAPSO consistently supported country offices dealing with crisis situations, such as Pakistan, Liberia and South Sudan. In the case of South Sudan, IAPSO seconded a senior staff member there for an 8-month period to reorganize the Procurement Unit, set up procedures and processes, and undertake emergency procurement.

17. With the partial merger, the IAPSO focus on supporting UNDP country offices was taken over by PSO. However, in the aftermath of the bombing of the United Nations office in Algiers, it became evident to UNDP that under certain circumstances payments may need to exceed the limit set by the financial regulations. UNDP informed the Advisory Committee that it had been obliged to turn down requests for ex-gratia payments by staff who were victims of the bombing, due to the financial limit placed on such payments. UNDP considers it important to be able to respond appropriately to such crises. The Committee was informed that no such financial limit on ex-gratia payments is contained in the financial regulations and rules of the United Nations (ST/SGB/2003/7, regulation 5.11 and rule 105.12), the United Nations Children's Fund or the United Nations World Food Programme.

IV. Inter-organization services

A. Procurement capacity development

18. New procurement curricula covering public procurement – 'Sourcing in the Public Sector', 'Contract and Supplier Relations Management', 'Risk Management in Contracting for Construction Services' and 'Procurement Strategy Development' – which were developed during 2005, were offered at Dubai, Bangkok and Vienna several times annually. A total of 370 participants attended the courses. UNDP/PSO will continue with the training courses in 2008 as a continuing need has been expressed by various stakeholders.

19. Procurement capacity development assignments were carried out with a number of United Nations organizations and partners in development during the biennium. IAPSO continued to play a role in support of the UNDP-European Union partnership for electoral assistance. IAPSO was the resource for procurement support and advice in developing

electoral assistance projects, including procurement strategies and plans, review of budgets and timelines, and procurement training as needed. Following the merger, this partnership with the European Union will be assumed by and strengthened under PSO/BOM. IAPSO also concluded an agreement with United Nations Procurement Services in 2007 to conduct procurement training for United Nations staff covering peacekeeping missions, and for head office locations globally. Following the partial merger, this project, which will conclude in 2008, will be assumed and be completed by PSO.

B. Support to the business community

20. In support of the business community, IAPSO undertook a variety of activities, including supporting business seminars, delivering supplier development courses, publishing procurement notices on behalf of the UNDP and other United Nations system organizations at its website, developing and managing the United Nations Global Marketplace', and publishing consolidated statistics on United Nations system procurement.

21. A business seminar is a forum in which a supplier community is advised about how to do business with the United Nations system. These seminars must be requested by a government trade promoting entity, such as a ministry of trade, or by a chamber of commerce. The format consists of a number of United Nations organizations presenting information about their work, the scope of procurement requirements, procedures, and terms and conditions. A question-and-answer period generally follows, and suppliers can meet the presenters on a one-to-one basis. IAPSO coordinated with the organizers of the business seminars on behalf of all participating United Nations organizations. To facilitate an efficient approach, IAPSO developed guidelines for the organizing entities, the United Nations participants, and the supplier community. IAPSO organizes and takes part in more than 15 business seminars each year, around the world. With the partial merger, this function has been transferred to UNDP/PSO as part of its HLCM procurement network secretariat duties.

22. Since 1998 IAPSO has managed and maintained the United Nations common supplier database. The database was revamped during 2002-2003 and relaunched in 2004 under a new name, the United Nations Global Marketplace. The database now serves as the sole portal for potential suppliers to 14 United Nations organizations. With the partial merger, this function has been transferred to UNOPS.

23. IAPSO had the responsibility of collecting, consolidating and publishing statistics on United Nations system procurement. Apart from its value to the Member States, the annual statistical report is used by potential suppliers to the United Nations system as a source for market research. With the partial merger, this function has been transferred to UNOPS, and UNOPS has assumed the responsibility for publishing the annual statistical report for 2007.

C. Inter-Agency Procurement Working Group

24. IAPSO has served as the secretariat to the Inter-Agency Procurement Working Group (IAPWG) since 1978. IAPWG was a forum of senior procurement practitioners of the United Nations System of Organizations, who was brought together in April 2007, under the HLCM of the Chief Executives Board to establish a procurement network. Its mandate is to promote the strategic importance of procurement and supply chain management in programme and service delivery, in a transparent and accountable manner. Its programme of work furthers the efficiency and effectiveness of the procurement function within the United Nations system, through, inter alia, collaborative procurement arrangements, simplification and harmonization of procurement practices, and by fostering professionalism among the staff responsible for procurement. The network, through

information and knowledge sharing, promotes procurement opportunities to potential suppliers from developing countries, as well as those from countries with economies in transition, and supports capacity development for procurement in countries where the United Nations organizations serve. UNDP/IAPSO has been serving as the secretariat since its inception. Since the merger of IAPSO into the new UNDP Procurement Support Office and UNOPS, respectively, on 1 January 2008, UNDP retains and funds the HLCM procurement network secretariat function, which facilitates the day-to-day running of the network and the coordination of business seminars.

V. Procurement and supply chain management

A. Procurement services

25. The volume of procurement handled by IAPSO declined between the 2004-2005 and 2006-2007 biennia for the reasons outlined under 'financial performance.' There has also been a shift in client base. IAPSO moved steadily to deepen relationships with key clients, especially UNDP country offices. By the end of 2006, UNDP country offices represented over half the total procurement volume of IAPSO. That trend slowed in 2007 due to the partial merger, as long-term support to UNDP country offices could not be initiated. The main support to development partners such as international financial institutions and non-governmental organizations has been in vehicle procurement, through the IAPSO e-catalogue. Table 1, in the annex, provides a breakdown of IAPSO procurement activities by product, and table 2 provides a breakdown by client group.

26. During the biennium, IAPSO continued to increase the range of supply markets in which it procured repeatedly, and therefore sought to support this activity with appropriate long-term agreements.

B. Sourcing from developing countries

27. The global supply markets in which IAPSO primarily procured are dominated by developed-country suppliers. IAPSO has been involved in initiatives within UNDP and with the HLCM to encourage more participation in United Nations procurement from developing countries. There are various issues to be considered. One is the reluctance of developing-country suppliers to take on the risks of international trade, often accompanied by a preference to offer goods through developed-country suppliers, who then assume the risks. Many developed-country suppliers to IAPSO (and to other United Nations organizations) source their product almost exclusively from developing countries – for example, products related to elections, such as ballot boxes, indelible ink and registration and polling kits, and products related to crisis recovery, such as tents. Another issue is globalization and the location in different countries of suppliers and their manufacturing facilities (where major developed-country suppliers fabricate some of their products in developing countries). For example, a major supplier of motor vehicles manufactures certain vehicles supplied to IAPSO in Thailand and South Africa. Since the statistical data do not reflect country of origin (place of manufacture), but rather location of the supplier with which the contract is made, the representation of developing-country inputs in the supply chain is underestimated.

C. E-procurement

28. In the 2006-2007 biennium, IAPSO continued to develop its e-procurement system, 'UN Web Buy' (www.unwebbuy.org). With the partial merger, UN Web Buy has been transferred to UNOPS.

29. IAPSO continued to provide support to the World Health Organization (WHO), which purchased a customized version of UN Web Buy in 2004. Following the partial merger, agreement has been reached with WHO that this support will be provided by UNOPS in the future.

30. IAPSO undertook several e-procurement consulting projects in support of programme country reforms. Two in-house initiatives, 'e-consulting' and 'procurement desktop' had to be curtailed due to the partial merger.

Annex

Table 1. IAPSO procurement by major product group

Product group	2006		2007	
	Amount Million USD	(Per cent)	Amount Million USD	(Per cent)
Motor vehicles and spares	49.38	36%	60.81	57%
Electoral Equipment	4.96	4%	10.40	10%
IT Equipment	12.05	9%	7.30	7%
Pharmaceuticals	38.00	27%	13.99	13%
Freight	15.50	11%	8.17	8%
Other technical equipment	18.78	14%	5.41	5%
Total	138.66	100%	106.90	100%

Table 2. IAPSO procurement services by client group

Product group	2006		2007	
	Amount Million USD	(Per cent)	Amount Million USD	(Per cent)
UNDP	70.26	51%	57.62	54%
Non-governmental organizations, donor Governments, bilateral and international development entities	26.59	19%	30.86	29%
Programme country governments	15.81	11%	6.31	6%
United Nations organizations	23.79	17%	9.72	9%
United Nations and eligible diplomatic staff members	2.21	2%	1.71	2%
Total	138.66	100%	106.90	100%